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STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2004(1.1)

SPECIAL NOTICE

**Special Estate Tax on Estates of Decedents Dying On or After
July 1, 2004, and Before January 1, 2005**

Purpose: This Special Notice summarizes 2003 legislation imposing a special estate tax on estates of decedents dying on or after July 1, 2004, and before January 1, 2005 and provides more details about the computation of the special estate tax than **Special Notice 2004(1)**, *Special Estate Tax on Estates of Decedents Dying On or After July 1, 2004, and Before January 1, 2005*. In general, the special estate tax is a surtax on the regular estate tax and is computed by:

- Using the applicable exclusion amount under 26 U.S.C. §2010(c) (I.R.C. §2010(c)), as it was in effect for estates of decedents dying during calendar year 2002;
- Using the maximum credit allowable for state death taxes under I.R.C. §2011, as it was in effect for estates of decedents dying before January 1, 2002; **and**
- Multiplying the tax, as tentatively calculated, by 1.3 (130%).

This legislation would not have taken effect if, on or before July 1, 2004, the Secretary of the Office of Policy and Management had certified that the amount of extraordinary federal assistance to be received by the State in the State's fiscal year ending June 30, 2005, was at least \$110 million. No certification has or will be made.

Effective Date: Effective from passage, and applicable to estates of decedents who die on or after July 1, 2004, and prior to January 1, 2005.

Statutory Authority: 2003 Conn. Pub. Acts 1 (June 30 Spec. Sess.), §§59 and 61.

Special Estate Tax Replaces Regular Estate Tax on Estates of Decedents Dying On or After July 1, 2004, and Before January 1, 2005: The estates of decedents dying on or after July 1, 2004, and before January 1, 2005, are subject to a special

Connecticut estate tax rather than to the regular Connecticut estate tax under Chapter 217 of the Connecticut General Statutes.

Computing the applicable exclusion amount: The special Connecticut estate tax for estates of decedents dying on or after July 1, 2004, and before January 1, 2005, is computed by using the applicable exclusion amount (and the applicable credit amount) under I.R.C. §2010(c):

- As if those decedents had died during calendar year 2002; **and**
- Applying I.R.C. §2010(c) as it was in effect for estates of decedents dying during calendar year 2002.

For estates of decedents dying during calendar year 2002, the applicable exclusion amount was \$1.0 million, and the applicable credit amount was \$345,800.

Note: If the special Connecticut estate tax had not been enacted, estates of decedents dying on or after July 1, 2004, and before January 1, 2005, would have used the applicable exclusion amount (and the applicable credit amount) under I.R.C. §2010(c) for decedents dying during 2004. (For estates of decedents dying during 2004, the applicable exclusion amount is \$1.5 million, and the applicable credit amount is \$555,800.)

Computing the credit for state death taxes: The special Connecticut estate tax for estates of decedents dying on or after July 1, 2004, and before January 1, 2005, is computed by:

- Using the maximum credit allowable for state death taxes under I.R.C. §2011, as if those decedents had died before January 1, 2002; **and**
- Applying I.R.C. §2011 as it was in effect for estates of decedents dying before January 1, 2002.

Note: If the special Connecticut estate tax had not been enacted, the regular Connecticut estate tax for estates of decedents dying on or after July 1, 2004, and before January 1, 2005, would have been the product of the

amount of the maximum credit allowable under I.R.C. §2011 multiplied by 0.25 (25%).

This maximum credit allowable for state death taxes may be computed on Table B of the instructions for federal Form 706 (or on **Form CT-706**, Schedule A). However, the maximum credit for state death taxes may be less than the amount computed on Table B of the instructions for federal Form 706 (and Form CT-706, Schedule A). This is because the credit provided by I.R.C. §2011 may not exceed the amount of the tax imposed by I.R.C. §2001 (computed as if the decedent had died during calendar year 2002), reduced by the amount of the unified credit provided by I.R.C. §2010 (computed as if the decedent had died during calendar year 2002 (\$345,800)). Where the maximum credit allowable for state death taxes is less than the amount computed on Table B, the lesser amount is entered on Form CT-706, Schedule A, Line 1, and also, in the case of a resident estate, on Form CT-706, Part I, Line 1, or, in the case of a nonresident estate, on Form CT-706, Part II, Line 17.

Computing the tax on a resident estate: Credit for death taxes paid to other states. A resident estate subtracts from the amount entered on **Form CT-706**, Part I, Line 1, a credit for some or all of the death taxes paid to other states. The allowable credit will be the lesser of:

- The total estate, inheritance, legacy, or succession taxes (excluding interest) paid to other states of the United States or to the District of Columbia for which credit is allowed to the estate under I.R.C. §2011 (to be entered on Form CT-706, Schedule B, and on Form CT-706, Part I, Line 2); **or**
- The amount computed by multiplying the maximum credit allowable for state death taxes (as if the decedent had died before January 1, 2002) by a fraction (with the product to be entered on Form CT-706, Part I, Line 6). The numerator of this fraction (to be entered on Form CT-706, Part I, Line 3) is the value of that part of the decedent's gross estate over which another state or states or said district have jurisdiction for estate tax purposes, and the denominator of this fraction (to be entered on Form CT-706, Part I, Line 3) is the value of the decedent's gross estate. This fraction is entered as a decimal on Form CT-706, Part I, Line 5. (That part of the decedent's gross estate over which another state or the District of Columbia would have jurisdiction for estate tax purposes would be the decedent's real or tangible personal property located in the other state or said district.)

The allowable credit will be entered on Form CT-706, Part I, Line 7. After the amount entered on Form CT-706, Part I, Line 7, is subtracted from the amount entered on Form CT-706, Part I, Line 1, the difference will be entered on Form CT-706, Part I, Line 8.

Credit for Connecticut succession tax imposed and paid. A resident estate will enter on Form CT-706, Part I, Line 9, the allowable credit for Connecticut succession tax imposed and paid. After the amount entered on Form CT-706, Part I, Line 9, is subtracted from the amount entered on Form CT-706, Part I, Line 8, the difference will be entered on Form CT-706, Part I, Line 10. The amount entered on Form CT-706, Part I, Line 10, will then be multiplied by 1.3 (130%), and the product will be entered on Form CT-706, Part I, Line 11.

Computing the tax on a nonresident estate: A nonresident estate is required to multiply the amount entered on Form CT-706, Part II, Line 17, by a fraction (with the product to be entered on Form CT-706, Part II, Line 21). The numerator of this fraction (to be entered on Form CT-706, Part II, Line 19) is the part of the decedent's gross estate attributable to the decedent's real or tangible personal property located within Connecticut, and the denominator of this fraction (to be entered on Form CT-706, Part II, Line 18) is the amount of the decedent's total gross estate. This fraction is entered as a decimal on Form CT-706, Part II, Line 20.

Credit for Connecticut succession tax imposed and paid. A nonresident estate enters on Form CT-706, Part II, Line 22, the allowable credit for Connecticut succession tax imposed and paid. After the amount entered on Form CT-706, Part II, Line 22, is subtracted from the amount entered on Form CT-706, Part II, Line 21, the difference will be entered on Form CT-706, Part II, Line 23. The amount entered on Form CT-706, Part II, Line 23, will then be multiplied by 1.3 (130%), and the product will be entered on Form CT-706, Part II, Line 24.

Which Estates Must File Form CT-706: *Type 1 estates* and *Type 2 estates*, as described below, are required to file Form CT-706.

Type 1 estate is an estate that is **required** to file federal Form 706 and that meets **either** of the following conditions:

- The decedent was a Connecticut resident at the time of death; **or**
- The decedent was a nonresident of Connecticut at the time of death, but owned real property or

tangible personal property located within Connecticut.

Type 2 estate is an estate that is **not required** to file federal Form 706 and that meets **both** of the following conditions:

- The decedent was a Connecticut resident at the time of death; or, if the decedent was a nonresident of Connecticut at the time of death, the decedent owned real property or tangible personal property located within Connecticut; **and**
- The sum of the decedent's gross estate; the adjusted taxable gifts (under 26 U.S.C. §2001(b)) made by the decedent after December 31, 1976; and specific exemption (allowed under 26 U.S.C. §2521 for gifts made by the decedent after September 8, 1976, and before January 1, 1977); is more than \$1.0 million.

What Revision of Form CT-706 Must Be Filed:

Estates of decedents dying on or after July 1, 2004, and before January 1, 2005, must file the June 2004 revision (not the April 2001 revision) of Form CT-706. (Estates of decedents dying before July 1, 2004, must use the April 2001 revision (not the June 2004 revision) of Form CT-706.)

- "Rev. 06/04" appears in the upper left-hand corner of the first page of the June 2004 revision of Form CT-706.
- "Rev. 04/01" appears in the upper left-hand corner of the first page of the April 2001 revision of Form CT-706.

What Documents Must Be Attached to Form CT-706:

A **Type 1 estate** must attach a complete copy, including all attachments, of its federal Form 706 filed with the Internal Revenue Service (IRS), unless previously submitted with the estate's Connecticut succession tax return. A **Type 1 estate** must also attach, for Connecticut estate tax purposes, a copy of the first page of the August 2002 revision of federal Form 706, after completing Part 1 and Lines 1 through 12 of Part 2 in accordance with the August 2002 revision of the Instructions for Form 706 (as if the decedent had died during calendar year 2002).

A **Type 2 estate** must attach, for Connecticut estate tax purposes, a complete copy, including all attachments, of the August 2002 revision of federal Form 706, after completing it in accordance with the August 2002 revision of the Instructions for Form 706 (as if the decedent had died during calendar year 2002).

When and Where to File Form CT-706: The due date for Form CT-706 is **six** months after the decedent's date of death. A **Type 1 estate** must file, as of the due date of Form CT-706, either **Form CT-706EXT, Application for Extension of Time to File and/or Pay Estate Tax**, or, if the estate has filed its federal Form 706 and is not applying for an extension of time to file or to pay, Form CT-706. A **Type 2 estate** must file, as of the due date of Form CT-706, either Form CT-706 or, if the estate is applying for an extension of time to file or to pay, Form CT-706EXT. (Use the June 2004 revision of Form CT-706EXT to apply for an extension.) Unless an application for extension of time to pay the tax has been made, payment of the tax reported on Form CT-706EXT must accompany the application. If Form CT-706EXT is timely filed, a nine-month extension of time to file Form CT-706 (and, if applicable, a nine-month extension of time to pay the tax) will be granted. (Thus, the extended due date will be **15** months after the decedent's date of death.) Form CT-706 must be filed in duplicate with **both DRS and** the appropriate probate court. Payment of any additional tax reported to be due on the filing of Form CT-706, and interest at the rate of 1% per month, or fraction of a month, on any additional tax, must accompany Form CT-706. (Interest accrues from the date that is six months after the decedent's date of death to the date of actual payment.)

What Revision of Form CT-706EXT Must Be Filed:

Estates of decedents dying on or after July 1, 2004, and before January 1, 2005, must file the June 2004 revision (not the May 1998 version) of Form CT-706EXT. (Estates of decedents dying before July 1, 2004, must use the May 1998 version (not the June 2004 revision).)

- "Rev. 06/04" appears in the upper left-hand corner of the first page of the June 2004 revision of Form CT-706EXT.
- "New 5/98" appears in the lower left-hand corner of the second page of the May 1998 version of Form CT-706EXT.

Estates of Decedents Dying On or After January 1, 2005:

Because the Connecticut estate tax is based on the credit allowed for state death taxes under I.R.C. §2011, and I.R.C. §2011 is not applicable to estates of decedents dying after December 31, 2004, estates of decedents dying on or after January 1, 2005, are not subject to the Connecticut estate tax.

Examples:

Example 1: W dies August 1, 2004. At the time of his death, W was a Connecticut resident. W's estate is required to file federal Form 706. Therefore, W's estate is a **Type 1 estate**. W's estate must attach, for Connecticut estate tax purposes, a copy of the first page of the August 2002 revision of federal Form 706, after completing Part 1 and Lines 1 through 12 of Part 2 in accordance with the August 2002 revision of the Instructions for Form 706 (as if the decedent had died during calendar year 2002). Lines 1 through 12 of federal Form 706, Part 2 (Rev. August 2002) read as follows:

1. Total gross estate less exclusions	\$1,800,000
2. Total allowable deductions	200,000
3. Taxable estate	\$1,600,000
4. Adjusted taxable gifts	0
5. Add lines 3 and 4	\$1,600,000
6. Tentative tax	600,800
7. Total gift tax payable	0
8. Gross estate tax	600,800
9. Maximum unified credit	345,800
10. Adjustment to unified credit	0
11. Allowable unified credit	345,800
12. Subtract line 11 from line 8	255,000

W's federal adjusted taxable estate is \$1,540,000 (\$1,600,000 reduced by \$60,000). The maximum credit for state death taxes, as computed on Table B of the instructions for federal Form 706 (and on Form CT-706, Schedule A), for W's estate is \$70,800. This amount is entered on Form CT-706, Schedule A, Line 1, and Part I, Line 1. The remaining steps in computing W's Connecticut estate tax are described in *Computing the tax on a resident estate*, above.

Example 2: X dies September 1, 2004. X made taxable gifts of \$520,000 during calendar year 2000. X also made taxable gifts of \$100,000 during calendar year 2003 that were includible in X's estate. At the time of her death, X was a nonresident of Connecticut, but owned real property or tangible personal property located within Connecticut. X's estate must file federal Form 706. Therefore, X's estate is a **Type 1 estate**. X's estate must attach, for Connecticut estate tax purposes, a copy of the first page of the August 2002 revision of federal Form 706, after completing Part 1 and Lines 1 through 12 of Part 2 in accordance with the August 2002 revision of the Instructions for Form 706 (as if the decedent had died during calendar year 2002). Lines 1 through 12 of federal Form 706, Part 2 (Rev. August 2002) read as follows:

1. Total gross estate less exclusions	\$2,000,000
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2. Total allowable deductions	1,500,000
3. Taxable estate	500,000
4. Adjusted taxable gifts	520,000
5. Add lines 3 and 4	1,020,000
6. Tentative tax	354,000
7. Total gift tax payable	0
8. Gross estate tax	354,000
9. Maximum unified credit	345,800
10. Adjustment to unified credit	0
11. Allowable unified credit	345,800
12. Subtract line 11 from line 8	8,200

Because the Connecticut estate tax is based on the credit allowed for state death taxes under I.R.C. §2011, and the credit provided by I.R.C. §2011 may not exceed the amount of the tax imposed by I.R.C. §2001 (computed as if X had died during calendar year 2002), reduced by the amount of the unified credit provided by I.R.C. §2010 (computed as if X had died during calendar year 2002 (\$345,800)), the maximum credit for state death taxes for X's estate is \$8,200, even though Table B of the instructions for federal Form 706 (and Form CT-706, Schedule A) computes the maximum credit, where the adjusted taxable estate is \$440,000 (\$500,000 reduced by \$60,000), to be \$10,000. The amount of \$8,200 is entered on Form CT-706, Schedule A, Line 1, and Part II, Line 17. The remaining steps in computing X's Connecticut estate tax are described in *Computing the tax on a nonresident estate*, above.

Example 3: Y dies October 1, 2004. At the time of his death, Y was a nonresident of Connecticut, but owned real property or tangible personal property located within Connecticut. Y's estate is not required to file federal Form 706. However, the sum of Y's gross estate, the adjusted taxable gifts (under 26 U.S.C. §2001(b)) made by Y after December 31, 1976; and specific exemption (allowed under 26 U.S.C. §2521 for gifts made by Y after September 8, 1976, and before January 1, 1977), is more than \$1.0 million. Therefore, Y's estate is a **Type 2 estate**. Y's estate must attach, for Connecticut estate tax purposes, to its Form CT-706 a copy of the August 2002 revision of federal Form 706, after completing it in accordance with the August 2002 revision of the Instructions for Form 706 (as if Y had died during calendar year 2002). Lines 1 through 12 of federal Form 706, Part 2 (Rev. August 2002) read as follows:

1. Total gross estate less exclusions	\$1,350,000
2. Total allowable deductions	100,000
3. Taxable estate	1,250,000
4. Adjusted taxable gifts	0
5. Add lines 3 and 4	1,250,000
6. Tentative tax	448,300
7. Total gift tax payable	0
8. Gross estate tax	448,300
9. Maximum unified credit	345,800
10. Adjustment to unified credit	0
11. Allowable unified credit	345,800
12. Subtract line 11 from line 8	102,500

Y's federal adjusted taxable estate is \$1,190,000 (\$1,250,000 reduced by \$60,000). The maximum credit for state death taxes, as computed on Table B of the instructions for federal Form 706 (and on Form CT-706, Schedule A), for Y's estate is \$48,400. This amount is entered on Form CT-706, Schedule A, Line 1, and Part II, Line 17. The remaining steps in computing Y's Connecticut estate tax are described in *Computing the tax on a nonresident estate*, above.

Example 4: Z dies November 1, 2004. At the time of her death, Z was a Connecticut resident. Z's estate is not required to file federal Form 706. However, the sum of Z's gross estate; the adjusted taxable gifts (under 26 U.S.C. §2001(b)) made by Z after December 31, 1976; and specific exemption (allowed under 26 U.S.C. §2521 for gifts made by Z after September 8, 1976, and before January 1, 1977); is more than \$1.0 million. Therefore, Z's estate is a **Type 2 estate**. Z's estate must attach, for Connecticut estate tax purposes, to its Form CT-706 a copy of the August 2002 revision of federal Form 706, after completing it in accordance with the August 2002 revision of the Instructions for Form 706 (as if Y had died during calendar year 2002). Lines 1 through 12 of federal Form 706, Part 2 (Rev. August 2002) read as follows:

1. Total gross estate less exclusions	\$1,400,000
2. Total allowable deductions	400,000
3. Taxable estate	1,000,000
4. Adjusted taxable gifts	0
5. Add lines 3 and 4	1,000,000
6. Tentative tax	345,800
7. Total gift tax payable	0
8. Gross estate tax	345,800
9. Maximum unified credit	345,800
10. Adjustment to unified credit	0
11. Allowable unified credit	345,800
12. Subtract line 11 from line 8	0

Because the Connecticut estate tax is based on the credit allowed for state death taxes under I.R.C. §2011, and the credit provided by I.R.C. §2011 may not exceed the amount of the tax imposed by I.R.C. §2001 (computed as if Z had died during calendar year 2002), reduced by the amount of the unified credit provided by I.R.C. §2010 (computed as if Z had died during calendar year 2002 (\$345,800)), Z's estate is not subject to the Connecticut estate tax, even though Table B of the instructions for federal Form 706 (and Form CT-706, Schedule A) computes the maximum credit, where the adjusted taxable estate is \$940,000 (\$1,000,000 reduced by \$60,000), to be \$33,200. Zero is entered on Z's **Form CT-706**, Schedule A, Line 1, and on Part I, Line 1. The remaining steps in computing Z's Connecticut estate tax are described in *Computing the tax on a resident estate*, above.

Effect on Other Documents: Special Notice 2004(1) is modified and superseded, and may not be relied upon on or after the date of issuance of this Special Notice.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.ct.gov/DRS**
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu. Only forms (not publications) are available through TAX-FAX.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation tax, business entity tax, or withholding tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on *File/Register OnLine*.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on *File/Register OnLine*.

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2003 Estate Tax Legislation
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